



Office of Audit Services
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December 16, 2008

AGENDA ITEM 4

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. SUBJECT:** Financial Reporting –
Management's Discussion and Analysis.
- II. PROGRAM:** Audit Services
- III. RECOMMENDATION:** The Finance Committee recommends to the Board of Administration acceptance of the draft revised Management's Discussion and Analysis for the year ended June 30, 2008.

IV. ANALYSIS:

Pursuant to Section 20228 of the Government Code, the Board of Administration's independent financial statement auditor, Macias Gini & O'Connell LLP, completed its audit of CalPERS' Basic Financial Statements for the year ending June 30, 2008. A draft copy of the auditor's opinion and CalPERS' Basic Financial Statements were previously provided to the Finance Committee and accepted by the Board of Administration at its November 20, 2008 meeting. A draft copy of the revised MD&A along with the underlying Basic Financial Statements is attached to this agenda item, as Attachment A, for the Committee's review.

At the November 17, 2008, meeting, the Finance Committee approved a revised recommendation that directed staff to (1) incorporate Note 11, Subsequent Events, into the Basic Financial Statements, and (2) further enhance Management's Discussion and Analysis (MD&A) at the request of CalPERS' Management. This motion is reproduced on the next page.

Members of the Finance Committee
December 16, 2008

“The Finance Committee recommends to the Board of Administration acceptance of the Basic Financial Statements, the Required Supplemental Schedules and the Supporting Schedules and Agency Funds, as audited by Macias Gini & O’Connell, LLP, for the year ended June 30, 2008 (BD Finance Item 4 Pgs. 28-77). The Basic Financial Statements shall incorporate Note 11, Subsequent Events, as distributed to the Finance Committee today, on BD Finance Item 4 Pg. 56.

The Finance Committee also recommends that the Board approve the Letter of Transmittal (BD Finance Item 4 Pgs. 79-80).

The Finance Committee directs staff to further enhance the section on Managements’ Discussion and Analysis (BD Finance Item 4 Pgs. 8-27), as requested by CalPERS’ Management, and return this section for the Finance Committee’s review at its December 2008 meeting.”

Pursuant to the motion, Note 11, Subsequent Events, has been incorporated into the Basic Financial Statements.

Pursuant to the motion, Management’s Discussion and Analysis has incorporated additional information concerning the following items. The new material is in underlined, bold font, and it includes information about the following items:

- The potential effects of investment losses on employer contribution rates;
- Reporting of investments at fair value or cost. A description of which real estate assets have been appraised, including real estate single family housing;
- Additional material on real estate equity and real estate leverage.

The draft Audit Opinion of Macias Gini & O’Connell LLP is still dated November 20, 2008, the date of the Board of Administration meeting where the motion from the November 17, 2008, Finance Committee meeting was accepted by the Board.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic Plan, but it is part of the ongoing work of the Office of Audit Services.

VI. RESULTS/COSTS:

Acceptance and publication of the audited financial statements, including the revised Management's Discussion and Analysis fulfills the Board's responsibility for procuring an independent audit under Section 20228 of the Government Code. There are no added costs from this agenda item.

Fiscal Services will provide the Committee an overview of the revised Management's Discussion and Analysis. Additionally, representatives of Macias Gini & O'Connell LLP are available to answer questions posed by Committee members.

LARRY JENSEN, Chief
Office of Audit Services

PETER H. MIXON
General Counsel

Attachment